

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MANYATTA CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Manyatta Constituency set out on pages 17 to 59, which comprise the statement of assets and liabilities as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation - recurrent and development combined for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the National Government Constituencies Development Fund - Manyatta Constituency as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

Unsupported Expenditure

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects Kshs.34,316,226 in respect to other grants and other payments which includes Kshs.17,300,000 in respect to security projects which further includes Kshs.15,000,000 for construction of Embu Police Station. The tender was awarded at a contract sum of Kshs.14,997,988 for a contract period of twenty-four (24) weeks from 13 November, 2019 to 29 April, 2020.

According to certificate number 1 and 2 of 16 December, 2019 and 26 February, 2020, the contractor had been paid Kshs.6,954,410 and Kshs.6,447,824 respectively, both totalling to Kshs.13,402,234 and the retention money of Kshs.1,340,223 refunded on 12 October, 2020.

Physical verification carried out in March, 2021 which was approximately forty-two (42) weeks after the contract completion date revealed that the project had not been completed though the contractor was on site.

Further, materials worth Kshs.871,350 as per the bill of quantities were substituted with materials of unknown value. It was explained that the Kshs.871,350 was compensated by extra works relating to concrete slabs instead of iron sheet roof on four (4) cells and enhanced work at the reception both of unknown value. However, no approval for this variation was availed for audit review.

In addition, details of how the provisional sums as per the Bill of Quantities (BQ) of Kshs.1,375,000 was expended, were not provided.

In the circumstances, the validity of the expenditure of Kshs.2,246,350 could not be confirmed and the value for money in the implementation of the project has not been achieved.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Manyatta Constituency Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

1.0 Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.197,752,158 and Kshs.128,384,434 respectively resulting to an under-funding of Kshs.69,367,724 or 35% of the budget. Further, out of the Kshs.128,384,434 received in the year, Kshs.123,189,152 was spent in the year resulting to an under absorption of Kshs.5,195,282 or 4%. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

2.0 Unutilized Project - Gatituri Administration Police (AP) Line

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects Kshs.34,316,226 in respect to other grants and other payments which includes Kshs.17,300,000 in respect to security projects which further includes Kshs.500,000 in respect to construction of four (4) door pit latrines at Gatituri AP Line. The project which started in financial year 2015/16 has so far been allocated a total of Kshs.1,700,000.

However, physical verification carried out in December, 2020 revealed that the project was complete but had not been put into the intended use.

In the circumstances, the value for money for the expenditure of Kshs.1,700,000 has not been achieved.

3.0 Project Implementation Status

The project implementation status report as at 30 June, 2020 availed for audit indicated that sixty (60) projects worth Kshs.123,050,241 were budgeted to be implemented during the year under review. However, ten (10) projects worth Kshs.8,700,000 were completed, twenty-three (23) projects worth Kshs.49,698,241 were ongoing while twenty-seven (27) projects worth Kshs.64,652,000 had not been started.

Further, the summary statement of appropriation: development indicates that Kshs.113,298,682 out of Kshs.177,443,483 allocated for implementation of projects was released by the Board leaving a balance of Kshs.64,144,801 as at 30 June, 2020 and this may have affected implementation of budgeted projects.

Consequently, Manyatta constituents did not get expected services totaling to Kshs.114,350,241 due to ongoing projects and those that were not started all.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Delayed Project Completion

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects Kshs.77,060,000 in respect to transfers to other government entities which includes Kshs.48,660,000 in respect to transfers to secondary schools which further includes Kshs.6,400,000 disbursed to three (3) secondary schools for various projects. These projects started in financial year 2013/2014 and cumulatively have received Kshs.11,600,000 from the financial year 2013/14 to 2015/16. Physical verification carried out in December, 2020 revealed that the projects were incomplete more than three (3) years since they were started contrary to Regulation 11(1)(j) of the National Government Constituencies Development Fund Regulations, 2016 which requires that projects be allocated adequate funds and should be completed within three years.

In the circumstances, the value for money in the implementation of these projects has not been achieved. In addition, the Fund was in breach of the law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to abolish the Fund or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how the Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Fund's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

02 February, 2022